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Market developments during February 2025 included:

Australian Equities

The ASX 200 Accumulation Index fell 3.8% in February. While it started with promise, hitting another record high at the midway point, the final two weeks of the month saw the market erase the gains made in January. The 'risk-off' shift came rapidly, with recently popular trades, like technology, being the big losers.

Losses were broad at a sector level, with seven of the eleven sectors posting negative returns. Gains came from defensive sectors such as Utilities (+3.2%), Communications (+2.6%), and Consumer Staples (+1.5%). Meanwhile, Information Technology (I.T.) (-12.3%), Health Care (-7.7%), Property (-6.4%), and Energy (-5.2%) were the biggest laggards.

The I.T. sector, like many across global markets, felt the effects of the move into Chinese tech stocks. Meanwhile, Wisetech, the largest I.T. company in the ASX 200, was a significant drag, down 25.5% in February. This was largely due to continued governance issues. Defensive sectors performed predictably in the risk-off market. Utilities finished up 3.2%, helped by a strong earnings report from APA Group, which gained 9.8%.

Global Equities

Global equity markets were volatile in February as tariff concerns, inflation surprises and shifting investor sentiment weighed on performance. Developed Markets declined, with the MSCI World Ex-Australia Index (AUD) down 0.36%, while Emerging Markets outperformed, gaining 0.79% (MSCI Emerging Markets Index (AUD)). European equities led global markets, while US and Japanese markets struggled.

US markets declined, with the S&P 500 falling 1.3% amid trade tensions, weaker economic data and persistent inflation concerns. The Federal Reserve held rates steady, signalling caution as inflation remained at 3%. Mega-cap tech stocks, including the Magnificent 7, had their worst month since December 2022 and fell into correction territory as investors reassessed high-growth valuations and AI sector momentum.

European equities delivered the strongest performance globally, with the MSCI Europe ex-UK Index rising 3.7% in February (in local currency terms). Gains were driven by strong earnings reports and optimism around a potential Ukraine ceasefire. The European Central Bank held rates steady, with investors expecting further cuts later in the year. Eurozone inflation fell to 2.4%, alleviating some concerns about persistently high price pressures.

Japanese equities fell sharply, with the Nikkei 225 tumbling 6.05% (in local currency terms), making it the worst-performing major market. US tariff threats, a stronger yen and export weakness weighed on sentiment. The Bank of Japan held rates steady, but speculation of a policy shift added to market uncertainty.

Emerging Markets outperformed, with the MSCI Emerging Markets Index (AUD) gaining 0.79%. The Hang Seng Index surged 13.43%, driven by Chinese tech strength and policy support, while the CSI 300 gained 1.91%. Latin American equities also advanced, particularly in Chile and Colombia, as stable commodity prices fuelled optimism.

Fixed Income

The bond market witnessed a surge of investor activity as uncertainty surrounding the US policy stance and growing concerns about potential future economic weakness made headlines.

The Reserve Bank of Australia began its rate cutting cycle by reducing the cash rate by 25 basis points, marking the first rate cut since November 2020. While the market anticipates further rate reductions, there remains a degree of uncertainty, particularly with Governor Bullock cautioning that overly rapid rate cuts could disrupt the current path of disinflation. Against this backdrop, the Australian 10 year government bond yield fell from 4.43% to 4.29%, a decline of 14 bps. Similarly, the Australian 2 year government bond yield decreased from 3.83% to 3.74%, a drop of 9 bps.

This past month, U.S. President Donald Trump imposed significant tariffs of 25% on key trading partners Canada and Mexico, alongside a 10% tariff on imported Chinese goods. This, coupled with a decline in consumer sentiment, as reflected in the Conference Board's Consumer Confidence Index, the widening U.S. trade deficit, and a drop in the Personal Consumption Expenditure (PCE), has raised concerns about the potential for stagflation, overshadowing initial expectations of strong economic growth. As a result, investors flocked to safe haven assets, putting downward pressure on bond yields. The U.S. 10 year Treasury yield fell from 4.54% to 4.21%, a drop of 33 bps. Similarly, the U.S. 2 year Treasury yield decreased from 4.22% to 4.01%, a drop of 21 bps.

REITs (listed property securities)

The S&P/ASX 200 A-REIT Accumulation Index TR continued to fall in February, finishing the month down 6.4%. The Index is in negative territory YTD, down 2.0%. Global real estate equities remained positive, increasing by 2.5% (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)). Australian infrastructure moderated with a return of -0.7%, slowing its growth after an increase of 16.3% in the prior 12-month period. The index has delivered a return of 0.5% YTD.

February saw an uptick in the M&A trend in Australia across the A-REIT sector. It appears the ongoing stoush between Hotel Property Investments (HPI) and the Charter Hall Retail REIT (CQR) led consortium is in its final stages. HPI has notified the market that CQR have acquired 90.86% of HPI securities. This allows for a compulsory acquisition. Goodman Group (GMG) entered into a trading halt on 19/02, announcing a A$4bn share placement to fund its data centre growth plans. Following successful completion of the placement (119.4m shares at $33.50), shares resumed trading on 20/02 and promptly fell by 7%. Following Centuria Capital Group's (CNI) 50% acquisition of ResetData Pty Ltd in August 2024, ResetData has announced a joint venture to establish Australia's first sovereign, public Artificial Intelligence Factory (AI-F1). This is being constructed in an office asset owned by Centuria Office REIT (COF).

The Australian residential property market experienced an increase of 0.3% Month on Month (as represented by CoreLogic's five capital city aggregate). Growth was felt in all capitals outside of Darwin. Melbourne was the biggest riser although still remains in negative territory over the previous 12-month period (+0.4%, -3.2% YoY). Perth continued to rise (+0.3%, 14.3% YoY), with the remaining 3 capitals seeing the same growth of 0.3%. Darwin was the only city to see a fall in value (-0.1%).

Alternatives

Preliminary estimates for February indicate that the index increased by 0.6 per cent (on a monthly average basis) in SDR terms, after decreasing by 0.6 per cent in January. The base metals, rural and non-rural subindices all increased in the month. In Australian dollar terms, the index was unchanged in February.

Over the past year, the index has decreased by 8.2 per cent in SDR terms, led by lower iron ore and coking coal prices. The index has decreased by 6.2 per cent in Australian dollar terms.

Currencies

The Australian dollar (AUD) depreciated over the month of February, closing 0.2% lower in trade weighted terms to 59.5, depreciating against the US Dollar (USD), Pound Sterling (GBP), Euro (EUR) and the Japanese Yen (JPY).

The Australian dollar weakened against the USD led by continuing uncertain economic conditions, specifically around tariffs. Additionally, the RBA cut interest rates for the month of February, indicating a potential hawkish outlook. The depreciation of the AUD was broadly led by uncertainty around China's economic outlook as well as yield differentials between Australia and other advanced economies.

Relative to the AUD, the JPY was the highest performer of the month, appreciating in relative terms by 3.0% against the AUD. Year-on-year, the AUD remains behind the USD, EUR, GBP and the JPY by 4.4%, 0.5%, 4.1% and 4.0% respectively, in relative terms.